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JERUSALEM FOR SAUNDERS, ALEXANDRIA FOR EILTS

FOL RPT CAIRO 18396 SENT ACTION SECSTATE INFO ABU DHABI, DOHA,
JIDDA, KUWAIT & RIYADH DTD 04 AUG 78

QUOTE: C O N F I D E N T I A L CAIRO 18396

E.O. 11652: GDS
TAGS: EFIN, EAID, EG
SUBJ: GODE-GOE MEETING IN KUWAIT: IMPLICATIONS

REF: (A) CAIRO 17539, (B) KUWAIT 4201

1. SUMMARY. PRESS ANNOUNCES NEW \$250 - \$300 MILLION
IN GODE ASSISTANCE TO EGYPT, BUT MINECONOMY ADMITS IN
CONVERSATION WITH AMBASSADOR THAT GODE/GOE SESSIONS IN
KUWAIT WERE "DISCOURAGING." DETAIL OF NEW GODE SCHEME TO
RECHANNEL INTEREST AND PRINCIPAL PAYMENTS BACK TO EGYPT FOR
DEVELOPMENT INDICATES SOME \$250 MILLION IN NEW FUNDS INDEED
WILL BE AVAILABLE IN 1978-79; ANTICIPATED, HOWEVER, WAS
\$650 MILLION. TO SUSTAIN GROWTH, GOE WILL FIND ITSELF BACK
IN COMMERCIAL MARKETS FOR IMPORT FINANCING UNLESS GODE--OR
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ARABS ON BILATERAL BASIS--COME THROUGH WITH MORE.END SUMMARY

2. GODE/GOE OFFICIAL SESSIONS IN KUWAIT WEEKEND JULY 27
(REFTELS) CHARACTERIZED IN JULY 31 AND AUGUST 1 CAIRO
DAILIES AS QUALIFIED SUCCESS WHICH GUARANTEES EGYPT \$250 -
\$300 MILLION IN BALANCE OF PAYMENTS/PROJECT AID DURING 1978.
NO MENTION MADE, HOWEVER, OF GODE RECAPITALIZATION. ALL

PAPERS STRESSED GOE PAYMENTS ON GODE LOANS WOULD BE RETURNED TO EGYPT AS GRANT ASSISTANCE.

3. IN EFFORT CLARIFY RATHER CONFUSED PRESS ACCOUNTS, AMBASSADOR RAISED ISSUE OF GODE/GOE RELATIONS WITH MINECON EL SAYEH AUGUST 1. EL SAYEH PRIVATELY TERMED GODE RESPONSE "DISCOURAGING" AND INDICATED HIS BELIEF THAT GODE HAD GONE BACK ON ITS PROMISES OF FINANCIAL SUPPORT. GODE OFFICIALS HAD REFUSED RECAPITALIZATION, CONTENDING (A) SOME OF MEMBER STATES ARE HAVING SERIOUS CASH FLOW PROBLEMS, (B) PETROLEUM REVENUES ARE DOWN, AND (C) FALL IN VALUE OF THE DOLLAR HAS ADVERSELY AFFECTED THEIR FINANCIAL POSITIONS. SOLE ASSURANCE GOE RECEIVED, ACCORDING EL SAYEH, WAS THAT GOE WOULD HAVE FULL ACCESS TO REFLows, I.E., ANY INTEREST AND PRINCIPAL ON LOAN PAYMENTS. FOR BALANCE OF 1978 THAT MEANS EGYPT WOULD HAVE AVAILABLE \$100 MILLION FROM INTEREST PAYMENTS OF \$50 MILLION EACH IN 1977 AND 1978. (IN 1979, ACCORDING EL SAYEH, \$150 MILLION IS DUE.) GODE HAS AGREED TO MAKE AVAILABLE THIS \$100 MILLION IN ADDITION TO \$100 MILLION STILL UNDISBURSED ON 1977 LOAN, PLUS ACT AS INTERMEDIARY AND BORROW \$150 MILLION AGAINST 1979 REPAYMENT ON INTERNATIONAL CURRENCY MARKET. (ATEEQI MENTIONED \$150 MILLION; DUKHEIL SPOKE OF \$200 MILLION.) GODE HOWEVER WILL NOT GUARANTEE BORROWING, BUT WILL MERELY SERVE AS BROKER. COMMERCIAL INTEREST RATES OF COURSE WOULD BE CHARGED ON ANY FUNDS BORROWED. THIS SCHEME WOULD ESSEN-
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TIALLY GIVE EGYPT \$250 (POSSIBLY \$300) MILLION FOR 1978.

4. AS GOE PAYMENTS TO GODE RISE, ACCORDING EL SAYEH, GODE WOULD MAKE ARRANGEMENTS FOR SIMILAR 360-DAY BORROWINGS AGAINST REPAYMENTS DUE IN SUBSEQUENT YEAR. GOE WOULD ESSENTIALLY BE RESPONSIBLE ONLY FOR ADDITIONAL INTEREST OWED ON COMMERCIAL PAPER AS PRESUMABLY EGYPT, IN EVER-IMPROVING POSITION, WOULD HAVE FUNDS AVAILABLE TO MEET GODE REPAYMENT.

5. IN POSITIVE VEIN, MINECON SAID THAT ONE MUST NOT FORGET SAUDIS AND KUWAITIS HAVE \$2 BILLION ON DEPOSIT IN EGYPTIAN BANKING SYSTEM. SAUDI ARABIA IS WILLING TO LEAVE THEIR PORTION OF FUNDS ON DEPOSIT, I.E., ROLLOVER OBLIGATION, FOR NEXT TEN YEARS. KUWAIT EVIDENTLY INSISTS ON ROLLOVER EACH YEAR, BUT IN ANY EVENT HAS BEEN LEAVING FUNDS IN BANKING SYSTEM ON DEPOSIT. EL SAYEH COMMENTED ALSO THAT MEMBER COUNTRIES OF GODE HAVE INDICATED INTEREST IN PROVIDING PROJECT FINANCING TO EGYPT, ALTHOUGH AMOUNTS HAVE NOT BEEN SPECIFIED.

6. COMMENT: PROPOSAL ON BOP FUNDING IS, OF COURSE, SUB-

STANTIALY LESS THAN GOE HOPED TO OBTAIN, PARTICULARLY GIVEN GODE'S ASSURANCE AT CG MEETING IN PARIS THAT THEY WOULD CONTINUE TO ASSIST EGYPT AND GIVEN IMF-IBRD OUTLINE OF GOE FINANCIAL REQUIREMENTS FOR NEXT TWELVE MONTHS OF \$950 MILLION. GODE WAS COUNTED ON FOR \$650 MILLION CONTRIBUTION THIS CALENDAR YEAR.

7. IN ANTICIPATION OF MORE GODE FUNDING AND EXPECTATION THAT IMF EXTENDED FUND FACILITY WOLL BE IN PLACE IN FALL, GOE HAS SINCE NOVEMBER 1977 DEVELOPED SHORT-TERM BORROWING PATTERN, USING 30-DAY FUNDS IN MANY INSTANCES AND PAYING OFF THESE "BRIDGE" LOANS AS SOON AS HARD CURRENCY BECOMES AVAILABLE IN THE PARALLEL MARKET FROM REMITTANCES. THIS HAS SUBSTANTIALY LOWERED NORMAL
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UTILIZATION OF 90-DAY AND 180-DAY LINES OF CREDIT, BUT OF COURSE IT CANNOT CONTINUE INDEFINITELY. LOCAL BANKING CONTACTS INDICATE THAT PUBLIC SECTOR AUTHORITIES OVER WHOM GOE CENTRAL BANK HAS LESS DIRECT CONTROL ARE USING SHORT-TERM LINES OF CREDIT; WE ESTIMATE THIS FIGURE IS UP TO ROUGHLY \$200 - \$250 MILLION. ADDITIONALLY, PUBLIC SECTOR AUTHORITIES WITH LESS FINANCIAL CREDIBILITY ARE SEEKING SUPPLIER CREDIT FACILITIES IN EUROPE WITH SOME SUCCESS AND OUR BEST ESTIMATE OF USE OF THESE FACILITIES IS APPROXIMATELY \$100 - \$125 MILLION. WITHOUT GODE MONIES, HOWEVER, GOE WILL BE INEVITABLY FORCED BACK INTO THE SHORT-TERM MARKETS TO MAINTAIN PRESENT IMPORT LEVELS.

8. CONCURRENTLY, REMITTANCES FROM ABROAD REPORTEDLY ARE SLOWING. WHILE THIS COULD BE SEASONAL, AS MANY EGYPTIANS WORKING ABROAD HAVE RETURNED FOR SUMMER SEASON AND RAMADAN, BANKING SECTOR HAS VOICED UNEASINESS OVER UNCERTAINTIES INHERENT IN COURSE OF RECENT DOMESTIC POLITICAL EVENTS. SOME BANK OFFICIALS TELL US THEY BELIEVE LACK OF CONFIDENCE IN REGIME WILL SHOW UP IN DROP IN REMITTANCES IN FALL OF THIS YEAR, WHEN FLOW WOULD TRADITIONALLY REGAIN STRENGTH.

9. EL SAYEH'S INFORMATION POINTS UP STARKLY FACT THAT GODE (OR OTHER ARAB) SUPPORT IS STILL CRITICAL FACTOR IN EGYPTIAN EQUATION, NOTWITHSTANDING RECENT IMPROVEMENT IN BOP SITUATION. ABSENCE OF SUCH FUNDING IN SIGNIFICANT AMOUNTS MAY WELL CAUSE ANOTHER SEVERE ARREARS PROBLEM IN NEXT 18 MONTHS, AND POSSIBLY SOONER. REVERSAL OF FAVORABLE DEVELOPMENTS IN ECONOMY LIKELY WOULD BRING ON CRISIS OF CONFIDENCE IN EGYPT'S FUTURE, AT VERY LEAST AMONG EGYPTIANS ABROAD WHO HAVE BEGUN REINVESTING IN COUNTRY, IF NOT ALSO INTERNALLY. EMERGING PATTERN OF
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PAYMENTS DIFFICULTIES BEARING ADVERSELY ON GROWTH PROSPECTS, THUS AFFECTING POLITICAL STABILITY, COULD REQUIRE REASSESSMENT OF USG AID PLANS FOR NEAR FUTURE, AS WELL. IN "BAD CASE" SITUATION, EMPHASIS MIGHT HAVE TO BE SHIFTED BACK TO MORE U.S. AID PROGRAM FUNDING TO BOLSTER RECENT ECONOMIC GAINS.

1. MEANS TO PROVIDE SUFFICIENT BOP SUPPORT MAY YET BE FORTHCOMING FROM GODE, OR ALTERNATIVELY SAUDI BILATERAL AID COULD SAVE THE DAY (EL SAYEH INDICATED TO AMBASSADOR THAT PRESIDENT SADAT EXPECTS SUCH ASSISTANCE FROM SAUDIS, IN LIEU OF URGER LARGE-SCALE GODE FUNDING). QUESTION IS, HOW LATE IN THE DAY AND WHAT POLITICAL PRECONDITIONS MIGHT BE INVOLVED IN A RETURN TO PRE-GODE BILATERAL ARAB AID ARRANGEMENTS. EILTS UNQUOTE CHRISTOPHER

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